

# FDIC State Profile

Spring 2006

## South Carolina

South Carolina's economy strengthened in late 2005.

- Recently revised employment data indicate that South Carolina's economy saw modest gains during 2005. However, job growth picked-up in late 2005 and stood at 1.4 percent, which was on par with the national average (see Chart 1). The ongoing erosion of non-durable manufacturing employment constrained faster growth. The closing of the WestPoint Stevens plant in April 2006 will only add to manufacturing job losses in the state.
- In contrast, gains occurred elsewhere in the state's economy: Government, temporary employment, and construction saw a combined net year-over-year increase of more than 20,000 jobs.
- Jobless rates did spike in fourth quarter 2005. However, much of the rise could be due to the simultaneous jump in labor force growth, which may indicate that discouraged workers are re-entering the labor market as employment opportunities improve.

Home price appreciation accelerated in 2005.

- According to the Office of Federal Housing Enterprise Oversight, the house price index for the state rose 9.2 percent in 2005. Median home prices rose by nearly \$11,000 last year, which was a record increase and well above the \$4,388 average over the last 25 years (see Chart 2). **Myrtle Beach** was the fastest appreciating metro market with a price gain of about \$15,300.
- Although home price appreciation accelerated in 2005, housing remains comparatively affordable. According to the National Association of Homebuilders-Wells Fargo Housing opportunity index, just 41 percent of homes nationwide are considered affordable for all U.S. households, nearly 51 percent of homes sold in **Charleston**, for example, would be considered affordable for a family earning the median income in the metropolitan area.

Home sale activity is balanced in the State's hottest market.

- Sales activity in Charleston rebounded late in 2005 after decelerating during much of the fall season (see Chart 3).

Chart 1: Job Growth in South Carolina Paces the Nation

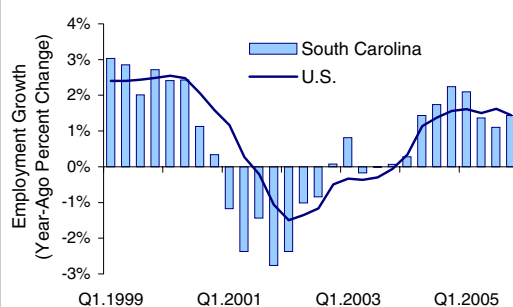


Chart 2: Annual Home Price Appreciation in South Carolina Was at a Record Level in 2005

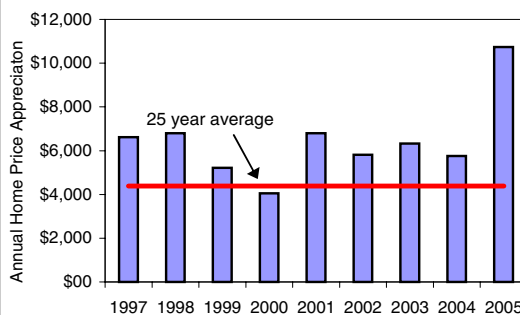
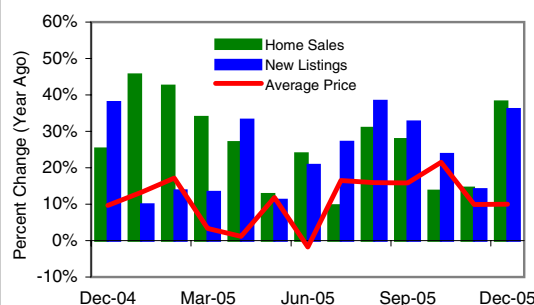


Chart 3: Growth in Existing Home Inventories and Sales Are Balanced in Charleston



The improvement in sales during December differs with most other markets in the Southeast where sales have been decelerating from a year ago. The total number of homes newly listed for sale in December 2005 was 36 percent higher than a year ago representing a 1.2-month supply of newly listed homes, which is down from a 1.5-month supply a year earlier. Still, inventory levels continue to build in Charleston which bears monitoring for signs of potential slowing in the market.

### Bank profitability expands due to strong loan growth.

- Profitability at South Carolina community banks improved during 2005.<sup>1</sup> Return on assets gained more than 3 basis points to 1.13 percent during the 12-month period (see Chart 4). Higher net interest income was primarily due to strong loan growth. Overall, loans increased more than 17 percent, led by double-digit growth in construction and development (C&D), multifamily, home equity, and residential loans.

### The changing yield curve shape has affected net interest margins (NIMs).

- Community bank NIMs have shown clear reactions to changes in the level and shape of the yield curve (see Chart 5). During 2001 and 2002, NIMs initially expanded as rate cuts led to lower funding costs, but NIMs then fell as borrowers refinanced high volumes of residential mortgages and other loans. By mid-year 2004, margins stabilized and then started trending upward. While funding costs have been slower to rise because of repricing lags, they have recently begun to accelerate, suggesting that NIM pressures will begin to emerge in 2006.

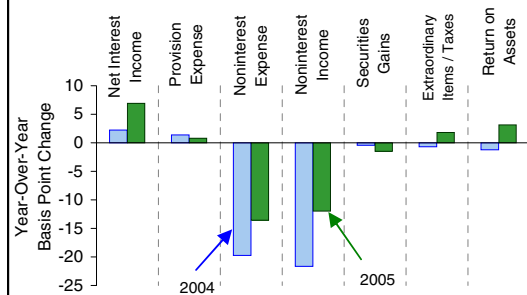
### Commercial real estate (CRE) lending concentrations are at unprecedented levels.

- CRE lending has been important performance driver during the past ten years. Outstanding CRE loans have grown from \$1.3 billion or 34.2 percent of assets in 1996 to \$6.9 billion, or 53.4 percent of assets, in 2005.
- Within the CRE loan portfolio, C&D loans have been the fastest growing segment. C&D loans grew 66 percent during 2005, which was the tenth consecutive year that double-digit growth has occurred. The majority of C&D lending is for residential housing, and continued strong absorption of new housing units will be crucial.
- Concentrations of C&D loans are well above the past cyclical high reached in the late 1980s (see Chart 6). Specifically, 30 community banks (48 percent) in South Carolina had an exposure of C&D loans of 100 percent or more of capital. In sharp contrast, only 4 community

banks (6 percent) had a C&D loan to equity ratio of 100 percent or higher in 1991 at the past cyclical high.

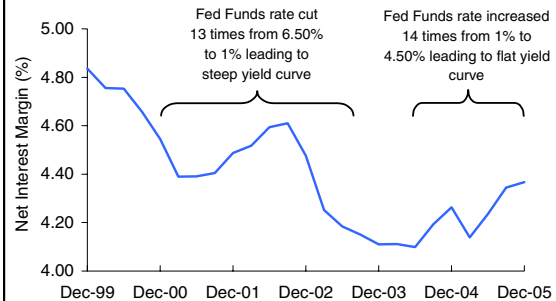
- In response to growing concentration levels among some FDIC-insured institutions nationwide, Federal banking regulatory agencies recently proposed supervisory guidance for CRE loan portfolios. The proposed guidance addresses a number of issues including the need for banks with high CRE concentrations or growth in CRE lending to have strong risk management practices, sound underwriting standards, and capital levels commensurate with risk. The comment period for the proposed guidance has been extended to April 13, 2006.

Chart 4: Profitability Gains Have Started to Moderate at South Carolina Community Banks



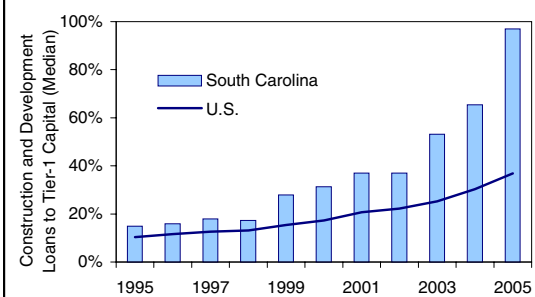
Source: FDIC, year-end data. Community banks have assets of \$1 billion or less.

Chart 5: The Dynamic Interest Rate Environment Is Reflected in South Carolina Community Bank Margins



Source: FDIC, quarterly data. Community banks have assets less than \$1 billion.

Chart 6: Construction and Development Loans Continue to Grow at South Carolina Community Banks



Source: FDIC (Community banks have assets less than \$1 billion).

<sup>1</sup>Community banks have assets of \$1 billion or less.

## South Carolina at a Glance

**ECONOMIC INDICATORS** (Change from year ago, unless noted)

| <b>Employment Growth Rates</b>   | <b>Q4-05</b> | <b>Q3-05</b> | <b>Q4-04</b> | <b>2004</b> | <b>2003</b> |
|--|--------------|--------------|--------------|-------------|-------------|
| Total Nonfarm (share of trailing four quarter employment in parentheses) | 1.4%         | 1.1%         | 2.2%         | 1.4%        | 0.2%        |
| Manufacturing (14%)  | -3.2%        | -3.2%        | -1.1%        | -2.8%       | -4.8%       |
| Other (non-manufacturing) Goods-Producing (7%)                           | 4.6%         | 1.7%         | 0.9%         | 1.7%        | 0.5%        |
| Private Service-Producing (62%)  | 2.0%         | 2.1%         | 3.8%         | 3.1%        | 1.5%        |
| Government (18%)   | 2.2%         | 1.1%         | 0.3%         | -0.5%       | 0.2%        |
| Unemployment Rate (% of labor force)                                     | 7.2          | 6.8          | 6.9          | 6.8         | 6.7         |

| <b>Other Indicators</b>   | <b>Q4-05</b> | <b>Q3-05</b> | <b>Q4-04</b> | <b>2004</b> | <b>2003</b> |
|---|--------------|--------------|--------------|-------------|-------------|
| Personal Income   | N/A          | 5.9%         | 7.2%         | 5.9%        | 3.5%        |
| Single-Family Home Permits  | 28.3%        | 20.5%        | 13.5%        | 13.2%       | 11.9%       |
| Multifamily Building Permits  | -15.6%       | 38.7%        | 138.3%       | 45.3%       | 14.8%       |
| Existing Home Sales   | 15.6%        | 18.1%        | 13.1%        | 19.6%       | 14.2%       |
| Home Price Index  | 9.2%         | 9.0%         | 6.0%         | 4.9%        | 3.6%        |
| Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level) | 3.79         | 3.66         | 3.56         | 3.65        | 3.87        |

**BANKING TRENDS**

| <b>General Information</b>     | <b>Q4-05</b> | <b>Q3-05</b> | <b>Q4-04</b> | <b>2004</b> | <b>2003</b> |
|--------------------------------|--------------|--------------|--------------|-------------|-------------|
| Institutions (#)               | 95           | 95           | 96           | 96          | 97          |
| Total Assets (in millions)     | 48,727       | 47,870       | 44,475       | 44,475      | 40,710      |
| New Institutions (# < 3 years) | 5            | 5            | 3            | 3           | 5           |
| Subchapter S Institutions      | 3            | 3            | 3            | 3           | 3           |

| <b>Asset Quality</b>                                   | <b>Q4-05</b> | <b>Q3-05</b> | <b>Q4-04</b> | <b>2004</b> | <b>2003</b> |
|--|--------------|--------------|--------------|-------------|-------------|
| Past-Due and Nonaccrual Loans / Total Loans (median %) | 1.42         | 1.44         | 1.35         | 1.35        | 1.67        |
| ALLL/Total Loans (median %)                            | 1.24         | 1.24         | 1.22         | 1.22        | 1.25        |
| ALLL/Noncurrent Loans (median multiple)                | 2.04         | 1.98         | 2.07         | 2.07        | 2.18        |
| Net Loan Losses / Total Loans (median %)               | 0.09         | 0.07         | 0.14         | 0.14        | 0.14        |

| <b>Capital / Earnings</b>                    | <b>Q4-05</b> | <b>Q3-05</b> | <b>Q4-04</b> | <b>2004</b> | <b>2003</b> |
|--|--------------|--------------|--------------|-------------|-------------|
| Tier 1 Leverage (median %)                   | 9.40         | 9.36         | 9.42         | 9.42        | 9.42        |
| Return on Assets (median %)                  | 0.98         | 1.10         | 0.94         | 0.92        | 0.98        |
| Pretax Return on Assets (median %)           | 1.41         | 1.63         | 1.38         | 1.42        | 1.44        |
| Net Interest Margin (median %)               | 4.21         | 4.27         | 4.08         | 4.02        | 4.06        |
| Yield on Earning Assets (median %)           | 6.44         | 6.27         | 5.67         | 5.46        | 5.76        |
| Cost of Funding Earning Assets (median %)    | 2.31         | 2.10         | 1.64         | 1.50        | 1.66        |
| Provisions to Avg. Assets (median %)         | 0.18         | 0.19         | 0.24         | 0.21        | 0.25        |
| Noninterest Income to Avg. Assets (median %) | 0.72         | 0.77         | 0.72         | 0.79        | 0.88        |
| Overhead to Avg. Assets (median %)           | 3.04         | 2.88         | 3.15         | 2.97        | 2.98        |

| <b>Liquidity / Sensitivity</b>                         | <b>Q4-05</b> | <b>Q3-05</b> | <b>Q4-04</b> | <b>2004</b> | <b>2003</b> |
|--|--------------|--------------|--------------|-------------|-------------|
| Loans to Assets (median %)                             | 72.1         | 70.4         | 70.9         | 70.9        | 67.4        |
| Noncore Funding to Assets (median %)                   | 24.7         | 24.5         | 24.0         | 24.0        | 22.5        |
| Long-term Assets to Assets (median %, call filers)     | 10.0         | 10.5         | 12.5         | 12.5        | 12.6        |
| Brokered Deposits (number of institutions)             | 36           | 35           | 26           | 26          | 20          |
| Brokered Deposits to Assets (median % for those above) | 6.4          | 5.8          | 7.4          | 7.4         | 3.0         |

| <b>Loan Concentrations (median % of Tier 1 Capital)</b> | <b>Q4-05</b> | <b>Q3-05</b> | <b>Q4-04</b> | <b>2004</b> | <b>2003</b> |
|---|--------------|--------------|--------------|-------------|-------------|
| Commercial and Industrial                               | 73.6         | 71.8         | 87.1         | 87.1        | 91.6        |
| Commercial Real Estate                                  | 314.8        | 291.4        | 252.1        | 252.1       | 229.2       |
| Construction & Development                              | 96.8         | 96.1         | 66.0         | 66.0        | 53.7        |
| Multifamily Residential Real Estate                     | 3.6          | 3.0          | 3.5          | 3.5         | 3.8         |
| Nonresidential Real Estate                              | 175.2        | 173.2        | 171.9        | 171.9       | 164.3       |
| Residential Real Estate                                 | 226.7        | 227.4        | 234.6        | 234.6       | 232.9       |
| Consumer  | 37.5         | 38.4         | 44.3         | 44.3        | 52.0        |
| Agriculture   | 4.2          | 3.9          | 4.5          | 4.5         | 5.3         |

**BANKING PROFILE**

| <b>Largest Deposit Markets</b>    | <b>Institutions in Market</b> | <b>Deposits (\$ millions)</b> | <b>Asset Distribution</b>    | <b>Institutions</b> |
|-----------------------------------|-------------------------------|-------------------------------|------------------------------|---------------------|
| Charlotte-Gastonia-Concord, NC-SC | 43                            | 90,216                        | < \$250 million              | 60 (63.2%)          |
| Columbia, SC                      | 24                            | 10,366                        | \$250 million to \$1 billion | 27 (28.4%)          |
| Greenville, SC                    | 28                            | 9,406                         | \$1 billion to \$10 billion  | 8 (8.4%)            |
| Charleston-North Charleston, SC   | 22                            | 7,161                         | > \$10 billion               | 0 (0%)              |
| Augusta-Richmond County, GA-SC    | 16                            | 5,486                         |                              |                     |